

THE
PROBLEM SOLVED:
IN THE
EXPLICATION OF A PLAN, OF A SAFE, STEADY,
AND SECURE
GOVERNMENT PAPER CURRENCY,
AND
LEGAL TENDER.

By SAMUEL READ,
AUTHOR OF AN INQUIRY CONCERNING THE NATURE AND
USE OF MONEY, &c. &c.

EDINBURGH:
PRINTED FOR MACREDIE, SKELLY AND CO. PRINCE'S STREET;
AND T. AND G. UNDERWOOD, FLEET STREET, LONDON.

1818.

THE

PROBLEM SOLVED:

IN THE

EXAMINATION OF A PLAN, OF A SAFE, STRONG
AND SECURE

GOVERNMENT PAPER CURRENCY,

AND

LEGAL TENDER.

BY SAMUEL READ,

AUTHOR OF AN ENQUIRY CONCERNING THE NATURE AND
USE OF MONEY, &c. &c.

EDINBURGH:

PRINTED FOR MACRAE, SMITH AND CO. PRINCE'S STREET;

AND T. AND G. UNDERWOOD, FLEET STREET, LONDON.

1818.

PREFACE.

THE plan here communicated to the public, of a Government Paper Currency and Legal Tender, suited to the circumstances of the country, and founded upon a principle which connects their value with that of specie, has not been the crude and sudden notion of a moment; or suggested by the recent discussions in Parliament, on subjects closely allied thereto. The principle was discovered and the system fully matured now nearly five years ago; and the plan was then submitted (in August and September 1813,) to the consideration of some of the very first characters in the country; the same as it exists at the present moment; and it was soon after offered to the attention of Government. It occurred from contemplating, for a considerable period, and with more than common attention, the novel and unprecedented situation of the Bank of England under the restriction imposed from payment of their notes; from observing the immense gains which flowed to the Bank from that measure;

and from considering, if it were not possible, upon any sound and safe principles of political science, to render those gains available to Government, for lightening the burthens, and augmenting the resources of the nation. It is now submitted to the public as a demonstrable and practicable solution of the important problem, hitherto attempted unsuccessfully, of a paper currency that may be issued under authority of Government, capable of sustaining a value equivalent to specie, and of officiating as a legal tender, as well as a medium of exchange. This solution, and the plan constructed upon it, is founded on a principle of *measured price* for every unit, or number of units, issued of such currency, which, by rendering the paper recommended equally expensive or valuable as specie, can furnish a check to excessive issues, and set a limit to the augmentation and amount of the circulating medium, equally effective and equally independent of the care or direction of individuals or of government, and in precisely the same manner as that which is produced by payments in gold. And if the following outline is sufficiently studied, it will be perceived that when duly executed, the system must necessarily identify the value of the paper described, with that of specie, which can alone be the proper standard and measure of the value of any paper currency.

THE

PROBLEM SOLVED,

&c. &c.

THE supply of *that part* of the circulating medium, which, in countries of great wealth, must always consist of paper, becomes a source of vast revenue; and it has sometimes been attempted, and has been a desideratum in Financial Science, to enable governments to take advantage of those resources, and apply them to the public exigencies. All attempts, however, of this nature, which have yet been essayed, have proved abortive; and sometimes have ended in signal disaster. Law's scheme and its result is fresh in the memory of every person conversant, not in subjects of this nature only, but with history itself. The example of the French assignats is one still more recent. And, indeed, all these attempts have produced evils much to overbalance any accidental benefits that may rarely have been derived from them.

But this want of success has not proceeded from any impracticability in the nature of the

object endeavoured to be attained, but rather because the principles on which these attempts have been made have been erroneous ; and, perhaps, because circumstances have been wanting which could concur to obtrude the subject on attention in that particular form and manner which was naturally adapted to conduct the mind to the necessary conclusion. The chief error in former attempts has been, that the control of the quantity or amount of nominal capital allowed to be issued as a currency has been left to *discretion*, instead of being established upon a general principle, and upon one, *self-regulating*, like the principle of convertibility into specie, which, by bearing upon the interest of those demanding supplies, could alone be competent to check their exuberance, according to a just and invariable rule, and to fix a safe and proper limit to the amount of the circulating medium.

Here is a plan, which, if sufficiently considered, will be found to be framed on a principle perfectly safe and unobjectionable ; to be eminently and obviously suited to the existing circumstances of this country ; and fraught with advantages which it will not be easy to calculate or to overrate.

Let a commission be established under Government, but independent of it as to its functions, for the manufacture and issue of a paper currency—of notes to be delivered to the public *in exchange for national stock*—which stock must be lodged in the hands of the commission as security for all the paper issued by it to the country ; and redeemable

only by the return of this new paper money. This paper currency will be delivered at the office of the commission to all those who want it, on their depositing an equal amount or value, of the public funded debt of this country, with the sum of paper currency which they demand.

The whole amount of national debt, which will, by the operation of the system, be thus brought into the hands of the commission, will be *redeemed from interest* while it remains there, or, which is the same thing, the interest will be received by Government, and go to the public service, or to the sinking fund.

The commission will be always ready to return stock for the notes which may be thrown back upon it; which stock will then again resume its former character, and derive its interest.

When as much of this paper currency is issued from the office of the commission, as shall be sufficient to supply the demand for it, it will begin to flow back, and the business of the commission will become regular. As it is presented at the office of the commission, stock will be delivered for it in return. That there will always be stock sufficient in the archives of the commission to retire the notes in circulation is evident, because the stock which will continually remain in the hands of the commission, will be precisely that which was received for the paper issued, and, therefore, equal in amount to it.

The mode in which this paper currency will be induced into the circulation, will arise simply,

from the law making it a legal tender, and repealing the acts of Parliament which confer that character on the notes of the Bank of England.

It is plain that the price thus paid for this new paper will be considerable. This is desirable—it is necessary. The price which will thus be paid will operate to restrain the issue—to keep it within regular bounds, and will be a natural preventive of an over-issue. It will hinder the procurement of the notes, except where they are wanted, at the value of specie; which can never be in such quantity as to depreciate their value below it. The interest which will thus be paid for this new legal tender, by rendering it equally expensive to be procured as specie, will establish the necessary restraint upon issues of paper of every description; which will be payable in it, and will prevent their excess, in the same manner, and upon a principle equally universal and sovereign in its control with payments in gold.

Care must be taken at the outset, to consider well the subject, and fix, upon just calculation, the sum of stock to be demanded for every hundred pounds of the new paper, as it would be inconvenient to alter, afterwards, its amount. It must be fixed at somewhat below the point at which it would render specie equally cheap or easy to be procured, with itself; or below that amount of stock which would purchase one hundred pounds in gold. Perhaps as much stock as would at present produce (or buy) *ninety pounds* in specie may be near a just amount. Thus giving the new pa-

per the advantage of specie ten per cent. in the market; and this *per centage* of difference, whatever it may be fixed at, will be precisely in the place of a seigniorage, and will operate in no other manner between this new paper and specie, than a seigniorage on the coin does between specie and bullion.

Gold and silver will still continue, as at present, to be also a legal tender, and may be chargeable for all debts under *twenty-five pounds*, which may be fixed the amount of the smallest note of the new legal paper:—if it shall not rather be found advisable to alter the present rule of law, and make *ten pounds* the highest debt for which gold may be demandable; and let the same sum be the amount of the smallest note of the commission-paper. This new paper, as well as gold, to be a legal tender for ten pounds and every higher sum. It would also be expedient, *under any system*, to establish a seigniorage on the gold coins, of perhaps seven or eight per cent.; the want of which makes it more difficult than it ought to be, to retain them in the country, or prevent them from being melted down, and creates much unnecessary trouble and expense in continually renewing them at the mint; and probably it would be an improvement to make gold and not silver, a legal tender for debts above *one pound*, allowing silver to be so only for debts of a pound and below.

By thus establishing the amount of stock to be paid for this new paper currency, at near the exact quantity which may be necessary to purchase

an equal amount in specie, a limit is fixed to the increase of the circulating medium, of precisely the same force and effect as payments in specie itself; and the difference which may be allowed betwixt the amount of stock necessary to purchase an hundred pounds in specie, and the sum of stock actually fixed to be given for the hundred pound note of the new paper, (if that difference is not allowed to be too great, or to exceed 10 per cent.,) will act in no other way but in the nature of a seigniorage; whilst the smallest of the notes, being exchangeable with specie, will regulate and affix the value of the money-unit to the precision and invariability of gold.

It will be observable, that if it is desired at any time to bring bullion into the country, and cause specie to take the place of this new paper, how easily, by the operation of the system, that object may be accomplished. To produce this effect, it would only be necessary to fix the amount of stock, to be paid for the hundred pounds of this new paper, to fully the sum which would purchase one hundred pounds in specie. For if the hundred pound note of this new paper be made to represent as much national stock, or annuities, as is worth, *or as would actually purchase* one hundred pounds in specie, the public would as soon pay in the one as in the other; and, if it were made to represent as much as would actually purchase *one hundred and ten pounds* in specie, it is evident that the public, instead of paying their debts in a legal

tender so expensive, would look after gold as a legal tender equally at their option, and not so valuable or expensive. This would raise an immediate demand for the article. It would, therefore, be sought after by merchants in all quarters as a commodity for which there would be a ready and advantageous market in the country. Thus a mercantile impulse, (if I may use the expression,) would be given to it, (bullion,) which would cause it to flow in upon Britain from all quarters. But it might require a considerable time before it could arrive in sufficient quantity to supply the demand for it: and in this interval the new and valuable paper, while it would be made the instrumental cause of the approach of bullion, would supply its place and the necessity of the country, during its gradual arrival and conversion into specie.

It is not probable, however, that it will soon be thought advisable to bring the price of the new paper legal tender, up fully to that of specie, or to cause the latter to come again into the circulation, in any greater degree than will be necessary to fix and establish the invariability in value of the former, because it would have the effect of too much circumscribing its circulation, and of forcing a greater quantity than necessary of other paper to circulate in its stead; and as this could never be for the immediate advantage of financiers, it need not be imagined that it will speedily be done. Nor will it be necessary, provided its price is established at first, *at nearly the value of specie*, because then the difference, as was formerly remarked, will

only operate in the manner of a seigniorage; which effect, and the circulation of a very considerable quantity of specie, and also the bearing and force of this specie, in affixing and regulating the value of the whole currency, will be insured by the regulations already pointed out.

But instead of bringing the price of the new paper up fully to that of specie, and forcing other paper to be had recourse to in its stead; it is not improbable, and it is rather to be feared, that the great advantage which the extension of its issue will produce to the revenue, and the disencumbrance which it will afford to the financial difficulties of the nation, may induce Government to interpose regulations and restraints limiting too much the issue of the other notes; and this is, perhaps, the only danger to which the system is liable, or the error which is likely to interrupt its beneficial operation.

One particular stock, (or description of the funded debt,) may be appropriated to be exchanged exclusively for the new paper, under such regulations as may be deemed advisable; or every different stock may be allowed; and in any case the same principle will regulate the quantity of each to be delivered in exchange for the hundred pound note, viz. as much as may purchase in the market ninety pounds in specie.

One single office or establishment in London, may, it is apprehended, be perfectly sufficient for the supply of the whole empire with the new legal tender. It may be advisable not to make

any of the notes less than *twenty-five pounds* amount; or perhaps they may be reduced so low as *ten pounds*; but certainly not lower. A regulation will also be necessary to fix the *minimum* amount of a transaction with the commission: probably one hundred pounds may be the smallest amount of stock which will be received, or of notes delivered at the office of the commission. *

The effect of the system, it need scarcely be observed, on the other circulating paper, will be to raise its value to a level, or nearly to a level, with the new legal tender; and that will be to an equality, or nearly to an equality, with specie.

The slightest consideration of the subject will be sufficient to shew, that one of the effects of the system will be to produce an *instantaneous* rise in the price of the funds; because of the demand for stock which will arise from the necessity of purchasing the new legal tender; and also because the system will redeem a large portion of *the debt*; and will so materially contribute to extricate the nation from that state of embarrassment in which its financial concerns at present are involved.

* It will be observed, that it is an absolute *transfer* of stock which is here all along contemplated;—although it is denominated a deposit of it, because the *same amount* of stock can always be had in return for *that sum of notes* when brought back to the commission, which was originally delivered there for the fixed and invariable amount of stock.

*Brief Estimate of Direct Advantage, or Revenue
that might be derived from the foregoing System.*

The present circulating medium of the country may be taken, I should suppose, at about sixty millions of units; and may consist, as nearly as I can guess, of the following different currencies: Bank of England paper, twenty-six millions—Country Bank paper, twenty-six millions—and, specie, tokens, &c. eight millions. Were the plan above explained put into operation, it would force the *granters* of all promissory notes, payable on demand, in circulation, to raise their value to an equality with that of the new paper and of specie, because they would be obliged to retire them with the one or the other, and, therefore, to confine their issues within such bounds as would maintain their value at the point which would render them equivalent to those legal currencies. In this case, such paper would be esteemed and used indifferently with the Government paper, no more of which latter would be taken than might be sufficient to supply the demands of the bankers, and of any other persons who might demand it. It is probable, however, that a considerable quantity and amount of it would circulate in the Metropolis even under the duration of the present charter of the Bank of England; and, probably, not

less than *fifteen millions* would be required, in whole, through the country; which would take out of the market above *twenty millions of stock*, and produce a gross revenue of about *seven hundred and fifty thousand pounds* annually; and, allowing *two hundred and fifty thousand* for the yearly expence of the establishment, would leave *half a million* as the net annual revenue to be derived at present.

But, if the Bank charter were once expired, and a regulation might be introduced to confine the issues of private paper to notes of ten pounds value and under, the Government paper circulation, and revenue derived from it, would be more than doubled. It would then remove *forty or fifty millions of stock* out of the market, and produce an annual gross revenue of about *one million five hundred thousand pounds*; and allowing *three hundred thousand pounds* for the annual charge of the establishment, would leave a net revenue of above ONE MILLION, on the lowest calculation, as its net annual produce. And, let it be remembered, that this direct and palpable advantage, is exclusive of the effects of the system upon the public funds, and the general financial situation and concerns of the country.

One word with regard to forgeries, to obviate any argument that might be urged against the system on this ground, from the distance to which the notes would have to travel from the capital.—Small notes are those which alone are very liable to be forged in the country. Large payments,

being less common here, the receipt of a note of ten pounds is more remarked, and more easily traced to its source; and it is only on small notes of one and two pounds that forgeries to any extent can be committed, or are, I believe, in point of fact, at present committed out of London, on the notes of the Bank of England. The system, therefore, according to which, *ten pound notes* are the lowest that would circulate as legal tender, could not be by any means so liable to objection on this ground as the present existing one, where the *one* and *two pound notes* of the Bank of England circulate in that character to the extremities of the island.—Under the plan recommended also, the Government might afford to *take up* (that is retire) all the forged notes which might be imposed upon the public, and which, supposing them to amount to the sum of one hundred thousand pounds in the course of a year, (which is a large assumption,) would be but a comparatively small deduction from the profits accruing from the system. This benevolent practice would not prevent the most active prosecution and punishment of offenders, while it would be the means of preventing a great deal of individual loss and private misery to those who could prove that they took the notes for value, believing them to be genuine.

FINIS.

INQUIRY

THE NATURE AND USE OF MONEY

THE LAWS OF RESTRICTION

The Bank of England

STATEMENT OF ITS NOTES IN CIRCULATION

IN THE YEAR 1844

BY THE BANK OF ENGLAND

LONDON

PRINTED BY

JOHN JOHNSON, ST. PAULS CHURCH-YARD

1844